

**REPORT OF THE AUDIT OF THE
CRITTENDEN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 25, 2005



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Fred Brown, Crittenden County Judge/Executive
Honorable Wayne Agent, Crittenden County Sheriff
Members of the Crittenden County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the Crittenden County Sheriff's Settlement - 2004 Taxes as of April 25, 2005.

We engaged Tichenor & Associates, LLP, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Crittenden County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CRITTENDEN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 25, 2005

Tichenor & Associates, LLP has completed the audit of the Sheriff's Settlement - 2004 Taxes for Crittenden County Sheriff as of April 25, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,076,324 for the districts for 2004 taxes, retaining commissions of \$85,981 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,987,951 to the districts for 2004 Taxes. Taxes of \$689 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$303,516 To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were not adequately insured and collateralized by bank securities.

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

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Independent Auditor's Report

We have audited the Crittenden County Sheriff's Settlement - 2004 Taxes as of April 25, 2005. This tax settlement is the responsibility of the Crittenden County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Crittenden County Sheriff's taxes charged, credited, and paid as of April 25, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2005, on our consideration of Crittenden County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Fred Brown, Crittenden County Judge/Executive
Honorable Wayne Agent, Crittenden County Sheriff
Members of the Crittenden County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$303,516 To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed –
October 13, 2005

CRITTENDEN COUNTY
WAYNE AGENT, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 25, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 284,207	\$ 197,875	\$ 976,507	\$ 318,215
Tangible Personal Property	16,230	12,172	52,617	44,795
Intangible Personal Property				15,498
Fire Protection	2,024			
Franchise Corporation	45,642	33,821	148,162	
Additional Billings	67	46	229	75
Limestone, Sand, and Mineral Reserves	448	307	1,541	502
Penalties	2,235	1,522	7,663	2,758
Adjusted to Sheriff's Receipt	<u>3</u>	<u>4</u>	<u>1</u>	<u>96</u>
Gross Chargeable to Sheriff	<u>\$ 350,856</u>	<u>\$ 245,747</u>	<u>\$ 1,186,720</u>	<u>\$ 381,939</u>
<u>Credits</u>				
Exonerations	\$ 1,239	\$ 847	\$ 4,256	\$ 1,387
Discounts	4,535	3,159	15,400	5,654
Delinquents:				
Real Estate	4,079	2,784	13,990	4,559
Tangible Personal Property	22	16	71	80
Uncollected Franchise	<u>5,448</u>	<u>3,922</u>	<u>17,490</u>	
Total Credits	<u>\$ 15,323</u>	<u>\$ 10,728</u>	<u>\$ 51,207</u>	<u>\$ 11,680</u>
Taxes Collected	\$ 335,533	\$ 235,019	\$ 1,135,513	\$ 370,259
Less: Commissions *	<u>14,548</u>	<u>9,988</u>	<u>45,421</u>	<u>16,024</u>
Taxes Due	\$ 320,985	\$ 225,031	\$ 1,090,092	\$ 354,235
Taxes Paid	320,576	224,740	1,088,817	353,818
Refunds (Current and Prior Year)	<u>290</u>	<u>195</u>	<u>890</u>	<u>328</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 119</u>	<u>\$ 96</u>	<u>\$ 385</u>	<u>\$ 89</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

CRITTENDEN COUNTY
WAYNE AGENT, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
April 25, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	930,811
4% on	\$	1,135,513

** Special Taxing Districts:

Library District	\$	36
Extension District		<u>60</u>
Due Districts	\$	<u><u>96</u></u>

CRITTENDEN COUNTY
WAYNE AGENT, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

April 25, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 15, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$303,516 of public funds uninsured and unsecured.

CRITTENDEN COUNTY
WAYNE AGENT, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
APRIL 25, 2005
(Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 15, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	983,000
Uncollateralized and uninsured	<u>303,516</u>
Total	<u>\$ 1,386,516</u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 15, 2004 through April 25, 2005.

Note 4. Interest Income

The Crittenden County Sheriff earned \$850 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of October 13, 2005, the Sheriff still owes \$418 in interest to the school district and \$406 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Crittenden County Sheriff collected \$11,034 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of October 13, 2005, the Sheriff owes \$575 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Crittenden County Sheriff collected \$1,800 of advertising fees and \$501 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
COMMENTS AND RECOMMENDATIONS

State Laws And Regulations:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$303,516 To Protect Deposits

On November 15, 2004, \$303,516 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with the amount insured by the Federal Deposit Insurance Corporation, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: None

Internal Controls – Reportable Conditions:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options of establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset these internal control weaknesses.

Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Sheriff could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.

The Sheriff should periodically, agree daily tax collection totals to receipts ledger and deposit slip and agree monthly tax reports to receipts ledger. The Sheriff should document this review by initialing and dating the bank deposit, monthly tax reports and receipts ledger.

The Sheriff should periodically review monthly tax reports prepared by another employee and compare the cancelled checks to the monthly reports. The Sheriff should document this review by initialing and dating monthly tax reports.

Sheriff's Response: None

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

This was not corrected and is repeated in the current year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Fred Brown, Crittenden County Judge/Executive
Honorable Wayne Agent, Crittenden County Sheriff
Members of the Crittenden County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Crittenden County Sheriff's Settlement - 2004 Taxes as of April 25, 2005, and have issued our report thereon dated October 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Crittenden County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Governmental Auditing Standards
(Continued)

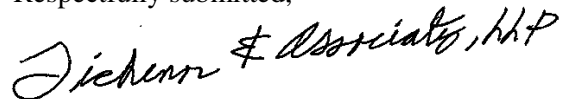
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Crittenden County Sheriff's Settlement -2004 Taxes as of April 25, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$303,516 To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed –
October 13, 2005

